

CITY OF CHEROKEE

**INDEPENDENT AUDITORS' REPORTS
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2009

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CITY OF CHEROKEE
OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Pamela Pierce	Mayor	January 2010
Bob Leach	Council Member, Mayor Pro-Tem	January 2010
Linda Burkhardt	Council Member	January 2012
Greg Stieneke	Council Member	January 2012
Jim Peck	Council Member	January 2012
Mick Mallory	Council Member	January 2010
Don Eikmeier	City Administrator	Indefinite
Debra Taylor	City Clerk/Treasurer	Indefinite
M.W. Miller, Jr.	Attorney	Indefinite

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Cherokee
Cherokee, IA 51012

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the primary government of the City of Cherokee, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of City of Cherokee's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements do not include financial data for the City's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for the component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues, and expenses of the component units required to be discretely presented totaling \$277,486, \$-0-, \$277,486, \$347,463, and \$359,962, respectively, have not been reported.

In our opinion, because of the omission of the discretely presented component units, as discussed above, the financial statements referred to above do not present fairly, in conformity

with accounting principles generally accepted in the United States of America, the financial position of the discretely presented component units of the City of Cherokee, Iowa, as of June 30, 2009, or the changes in financial position thereof for the year then ended.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, and each major fund for the primary government of the City of Cherokee at June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2009 on our consideration of the City of Cherokee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 20 through 22 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insight on that information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the primary government of the City of Cherokee. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Winther, Steve & Co. LLP". The signature is written in a cursive, flowing style.

November 16, 2009

BASIC FINANCIAL STATEMENTS

CITY OF CHEROKEE
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

		Program Receipts		
		Charges for	Operating	Capital
	Disbursements	Service	Grants and	Grants and
			Contributions	Contributions
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	\$1,345,016	\$ 27,914	\$ 298,296	
Public works	618,553	11,493	445,465	
Culture and recreation	757,638	122,932	21,846	
Community and economic development	1,641			
General government	194,840			
Debt service	2,113,371			\$ 18,272
Capital projects	291,658			
Total governmental activities	<u>5,322,717</u>	<u>162,339</u>	<u>765,607</u>	<u>18,272</u>
Business-type activities:				
Water	864,080	777,997		
Sewer	927,118	994,789		
Landfill	159,473	147,256		
Solid waste	228,429	234,337		
Storm water	149,258	80,916		
Total business-type activities	<u>2,328,358</u>	<u>2,235,295</u>		
TOTAL	<u>\$7,651,075</u>	<u>\$2,397,634</u>	<u>\$ 765,607</u>	<u>\$ 18,272</u>
General Receipts:				
Property taxes levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Hotel/motel tax				
Grants and contributions not restricted to specific purpose				
Unrestricted investment interest				
Bond proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets - beginning of year				
Cash basis net assets - end of year				
Cash basis net assets:				
Restricted:				
Debt service				
Road use				
Employee benefits				
Other purposes				
Unrestricted				
Total cash basis net assets				

See Notes to Financial Statements

Exhibit A

Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business-Type Activities	Total
\$(1,018,806)		\$(1,018,806)
(161,595)		(161,595)
(612,860)		(612,860)
(1,641)		(1,641)
(194,840)		(194,840)
(2,095,099)		(2,095,099)
(291,658)		(291,658)
<u>(4,376,499)</u>		<u>(4,376,499)</u>
	\$ (86,083)	(86,083)
	67,671	67,671
	(12,217)	(12,217)
	5,908	5,908
	<u>(68,342)</u>	<u>(68,342)</u>
	<u>(93,063)</u>	<u>(93,063)</u>
<u>(4,376,499)</u>	<u>(93,063)</u>	<u>(4,469,562)</u>
1,335,159		1,335,159
218,619		218,619
404,858		404,858
454,888		454,888
67,055		67,055
4,675		4,675
97,953	9,338	107,291
1,540,000		1,540,000
324,543	11,676	336,219
<u>56,527</u>	<u>(56,527)</u>	
<u>4,504,277</u>	<u>(35,513)</u>	<u>4,468,764</u>
127,778	(128,576)	(798)
<u>1,969,636</u>	<u>901,531</u>	<u>2,871,167</u>
<u>\$ 2,097,414</u>	<u>\$ 772,955</u>	<u>\$ 2,870,369</u>
\$ 26,695	\$ 337,144	\$ 363,839
45,249		45,249
29,621		29,621
1,942,212		1,942,212
<u>53,637</u>	<u>435,811</u>	<u>489,448</u>
<u>\$ 2,097,414</u>	<u>\$ 772,955</u>	<u>\$ 2,870,369</u>

See Notes to Financial Statements

CITY OF CHEROKEE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

	<u>General</u>	<u>Special Revenue</u>	
		<u>Road Use</u>	<u>Employee Benefits</u>
RECEIPTS:			
Property tax	\$ 871,016		\$ 437,414
Tax increment financing			
Other city taxes			
Licenses and permits	26,537		
Use of money and property	56,958		189
Intergovernmental	311,096	\$ 445,465	
Charges for service	140,477		
Special assessments			
Miscellaneous	<u>97,267</u>	<u>7,760</u>	<u>40,132</u>
TOTAL RECEIPTS	<u>1,503,351</u>	<u>453,225</u>	<u>477,735</u>
DISBURSEMENTS:			
Operating:			
Public safety	874,878		243,761
Public works		565,062	72,967
Culture and recreation	585,255		108,821
Community and economic development			
General government	292,955		52,106
Debt service			
Capital projects			
TOTAL DISBURSEMENTS	<u>1,753,088</u>	<u>565,062</u>	<u>477,655</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(249,737)</u>	<u>(111,837)</u>	<u>80</u>
OTHER FINANCING SOURCES (USES):			
Bond proceeds			
Operating transfers in	185,916	30,447	16,596
Operating transfers out		(80,551)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>185,916</u>	<u>(50,104)</u>	<u>16,596</u>
NET CHANGE IN CASH BALANCES	(63,821)	(161,941)	16,676
CASH BALANCES - BEGINNING OF YEAR	<u>117,458</u>	<u>207,190</u>	<u>12,945</u>
CASH BALANCES - END OF YEAR	<u>\$ 53,637</u>	<u>\$ 45,249</u>	<u>\$ 29,621</u>
CASH BASIS FUND BALANCES:			
Reserved:			
Debt service			
Unreserved:			
General fund	\$ 53,637		
Special revenue funds		\$ 45,249	\$ 29,621
Capital projects fund			
Permanent fund			
TOTAL CASH BASIS FUND BALANCE	<u>\$ 53,637</u>	<u>\$ 45,249</u>	<u>\$ 29,621</u>

Exhibit B

<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
	\$ 404,858	\$ 26,729	\$1,740,017
		218,619	218,619
		521,943	521,943
			26,537
\$ 32,446	1,596	6,764	97,953
3,900		5,146	765,607
			140,477
	18,272		18,272
<u>310,223</u>	<u>17,720</u>	<u>48,705</u>	<u>521,807</u>
<u>346,569</u>	<u>442,446</u>	<u>827,906</u>	<u>4,051,232</u>
226,377			1,345,016
27,056			665,085
		63,562	757,638
1,641			1,641
			345,061
275,021	1,838,350		2,113,371
<u>289,495</u>		<u>2,163</u>	<u>291,658</u>
<u>819,590</u>	<u>1,838,350</u>	<u>65,725</u>	<u>5,519,470</u>
<u>(473,021)</u>	<u>(1,395,904)</u>	<u>762,181</u>	<u>(1,468,238)</u>
831,383	708,617		1,540,000
81,729	653,338		968,026
<u>(88,219)</u>		<u>(742,729)</u>	<u>(911,499)</u>
<u>824,893</u>	<u>1,361,955</u>	<u>(742,729)</u>	<u>1,596,527</u>
351,872	(33,949)	19,452	128,289
<u>594,943</u>	<u>60,644</u>	<u>865,705</u>	<u>1,858,885</u>
<u>\$ 946,815</u>	<u>\$ 26,695</u>	<u>\$ 885,157</u>	<u>\$1,987,174</u>
	\$ 26,695		\$ 26,695
			53,637
\$ 946,815		\$ 738,019	812,889
			946,815
		<u>147,138</u>	<u>147,138</u>
<u>\$ 946,815</u>	<u>\$ 26,695</u>	<u>\$ 885,157</u>	<u>\$1,987,174</u>

See Notes to Financial Statements

CITY OF CHEROKEE
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 TO THE STATEMENT OF ACTIVITIES AND NET ASSETS
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

TOTAL GOVERNMENTAL FUNDS CASH BALANCES (Page 7)	\$1,987,174
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Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of certain building replacements or improvements to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	<u>110,240</u>
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CASH BASIS NET ASSETS OF GOVERNMENTAL ACTIVITIES (Page 5)	<u>\$2,097,414</u>
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NET CHANGE IN CASH BALANCES (Page 7)	\$ 128,289
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Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of certain building replacements or improvements to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.	<u>(511)</u>
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CHANGE IN CASH BASIS NET ASSETS OF GOVERNMENTAL ACTIVITIES (Page 5)	<u>\$ 127,778</u>
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CITY OF CHEROKEE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

	Enterprise Funds				Internal Service Fund Building Replacement
	Water	Sewer	Nonmajor	Total	
OPERATING RECEIPTS:					
Charges for service	\$846,745	\$1,106,817	\$462,509	\$2,416,071	
Use of money and property	5,181	3,770	387	9,338	\$ 604
Miscellaneous	437	11,239		11,676	
TOTAL OPERATING RECEIPTS	<u>852,363</u>	<u>1,121,826</u>	<u>462,896</u>	<u>2,437,085</u>	<u>604</u>
OPERATING DISBURSEMENTS:					
Business-type activities	<u>728,613</u>	<u>646,045</u>	<u>537,160</u>	<u>1,911,818</u>	<u>1,115</u>
TOTAL OPERATING DISBURSEMENTS	<u>728,613</u>	<u>646,045</u>	<u>537,160</u>	<u>1,911,818</u>	<u>1,115</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	<u>123,750</u>	<u>475,781</u>	<u>(74,264)</u>	<u>525,267</u>	<u>(511)</u>
NONOPERATING RECEIPTS (DISBURSEMENTS):					
Debt service	<u>(204,215)</u>	<u>(393,101)</u>		<u>(597,316)</u>	
TOTAL NONOPERATING RECEIPTS (DISBURSEMENTS)	<u>(204,215)</u>	<u>(393,101)</u>		<u>(597,316)</u>	
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(80,465)</u>	<u>82,680</u>	<u>(74,264)</u>	<u>(72,049)</u>	<u>(511)</u>
Transfers - net	<u>(50,749)</u>	<u>(33,792)</u>	<u>28,014</u>	<u>(56,527)</u>	
NET CHANGE IN CASH BALANCES	<u>(131,214)</u>	<u>48,888</u>	<u>(46,250)</u>	<u>(128,576)</u>	<u>(511)</u>
CASH BALANCES - BEGINNING OF YEAR	<u>655,401</u>	<u>221,898</u>	<u>24,232</u>	<u>901,531</u>	<u>110,751</u>
CASH BALANCES - END OF YEAR	<u>\$524,187</u>	<u>\$ 270,786</u>	<u>\$ (22,018)</u>	<u>\$ 772,955</u>	<u>\$110,240</u>
CASH BASIS FUND BALANCES:					
Reserved for debt service	\$304,393	\$ 32,751		\$ 337,144	
Unreserved	<u>219,794</u>	<u>238,035</u>	<u>\$ (22,018)</u>	<u>435,811</u>	<u>\$110,240</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$524,187</u>	<u>\$ 270,786</u>	<u>\$ (22,018)</u>	<u>\$ 772,955</u>	<u>\$110,240</u>

CITY OF CHEROKEE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCE
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2009

	Agency Fund Cherokee Aviation Authority
CASH BALANCE - BEGINNING OF YEAR	\$ _____
RECEIPTS:	
Property tax	14,850
Miscellaneous	<u>3,801</u>
TOTAL RECEIPTS	18,651
DISBURSEMENTS:	
To other governments	<u>(18,651)</u>
CASH BALANCE - END OF YEAR	\$ _____

NOTES TO FINANCIAL STATEMENTS

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Cherokee, Iowa is a political subdivision of the State of Iowa located in Cherokee County. It was first incorporated in 1856 and operates under the Home Rule provisions of the Constitution of Iowa and under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides various utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City is considered a primary government and has excluded the financial data of its component units, Cherokee Community Foundation, Cherokee Volunteer Fire Department Foundation, and Cherokee Public Library Foundation. A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. A component unit is a legally separate entity for which the City is financially accountable. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. Since these financial statements do not include the City's component units, they do not purport to be prepared in conformity with U.S. generally accepted accounting principles as they relate to the exclusion of the component units.

Cherokee Community Foundation, Cherokee Volunteer Fire Department Foundation, and Cherokee Public Library Foundation are considered component units of the City of Cherokee, since these entities provide fundraising activities to benefit programs and projects of the City. Financial statements of these entities are not separately prepared.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards: Cherokee County Joint E911 Service Board, Cherokee County Assessor's Conference Board, Cherokee County Solid Waste Commission, and Cherokee Aviation Authority. Financial transactions of these organizations are included in the City's financial statements only to the extent of the City's fiduciary relationship with the organization and, as such, are reported as an Agency fund of the City.

B. Basis of Presentation

Government-Wide Financial Statements - The statement of activities and net assets reports information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities and net assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The statement of activities and net assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are separately aggregated and reported as nonmajor governmental and proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to account for the benefits provided employees which are financed by property taxes.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation debt.

The Capital Projects Fund - Aquatic Center is used to account for all resources used in the acquisition and construction of the Aquatic Center.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's sewer system.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for financing the replacement of damaged property not covered by insurance.

C. Measurement Focus and Basis of Accounting

The City of Cherokee maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the public safety, and debt service functions.

E. Subsequent Events

Management has evaluated subsequent events through November 16, 2009 the date the financial statements were available to be issued.

2. CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-ended management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

2. CASH AND POOLED INVESTMENTS - Continued

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City did not have investments subject to risk categorization at June 30, 2009.

3. BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation notes and revenue notes and bonds are as follows:

Year Ending June 30,	<u>General Obligation Notes</u>		<u>Revenue Notes/Bonds</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 906,000	\$197,126	\$ 741,000	\$ 214,090	\$1,647,000	\$ 411,216
2011	843,000	169,344	755,000	180,744	1,598,000	350,088
2012	885,000	141,120	763,000	146,826	1,648,000	287,946
2013	910,000	108,665	273,000	112,620	1,183,000	221,285
2014	570,000	75,008	284,000	103,052	854,000	178,060
2015 - 2019	1,130,000	91,961	1,570,000	358,812	2,700,000	450,773
2020 - 2024			1,135,000	82,628	1,135,000	82,628
Total	<u>\$5,244,000</u>	<u>\$783,224</u>	<u>\$5,521,000</u>	<u>\$1,198,772</u>	<u>\$10,765,000</u>	<u>\$1,981,996</u>

The Code of Iowa requires that principal and interest on general obligation notes be paid from the Debt Service Fund.

Revenue Notes/Bonds

The City has pledged future aquatic center pledge receipts to repay \$1,650,000 in aquatic center revenue bonds issued in February 2007. Proceeds from the bonds provided financing for construction of a new aquatic center. The bonds are payable solely from aquatic center pledge receipts and are payable through 2012. Annual principal and interest payments on the bonds are expected to require 100% percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,440,000. For the current year, principal and interest paid and total pledge receipts were \$275,021 and \$250,917, respectively.

The City has pledged future water customer receipts net of specified operating disbursements to repay \$1,330,000 in water revenue bonds issued in April 2002. Proceeds from the bonds were used to refinance outstanding bonds for a 1994 water plant and mains project. The bonds are payable solely from water customer net receipts and are payable through 2010. Annual principal and interest payments on the bonds are expected to require 100% of net receipts. The total principal and interest remaining to be paid on the bonds is \$204,750. For the current year, principal and interest paid, charges for services, and total customer net receipts were \$204,215, \$846,745, and \$123,750, respectively.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

3. BONDS AND NOTES PAYABLE - Continued

The City has pledged future sewer customer receipts net of specified operating disbursements to repay \$5,560,000 in sewer revenue bonds issued in 1999 and 2002. Proceeds from the bonds provided financing for sewer system improvements. The bonds are payable solely from sewer customer net receipts and are payable through 2023. Annual principal and interest payments on the bonds are expected to require less than 83% percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$5,075,022. For the current year, principal and interest paid and total customer net receipts were \$393,101 and \$475,781, respectively.

The resolutions providing for the issuance of water and sewer revenue notes include the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders retain a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to separate water and sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- c. Additional monthly transfers to the water reserve account shall be made until specific minimum balances have been accumulated. The water reserve account, which exceeds its minimum balance requirement, is restricted for the purpose of paying principal at maturity or interest on the water revenue notes if sufficient money is not available in the Sinking Fund.
- d. All funds remaining in the city water account after the payment of all maintenance and operating expenses and required transfers shall be placed in a water revenue improvement fund at a minimum rate of \$5,000 per month until a minimum of \$200,000 is accumulated. This account is restricted for the purpose of paying for any improvement, extension, or repair to the system or for note and interest payments which the other accounts might be unable to make.

At June 30, 2009, the balances of these special funds included in the respective utility fund balance are as follows.

	<u>Water</u>	<u>Sewer</u>
Bond and interest sinking	\$ 29,393	\$ 32,752
Bond reserve	206,862	
Improvement	<u>68,138</u>	<u> </u>
TOTAL	<u>\$304,393</u>	<u>\$ 32,752</u>

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

4. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of annual covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$90,175, \$84,059, and \$79,967, respectively, equal to the required contributions for each year.

5. COMPENSATED ABSENCES

City employees meeting established criteria accumulate a limited amount of earned but unused vacation, compensatory time, and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory time, and sick leave termination payments payable to employees at June 30, 2009, primarily relating to the General Fund, is \$210,482.

The liability for compensated absences has been computed based on rates of pay as of June 30, 2009.

6. LANDFILL CONTRACT

The solid waste disposal contract, which continues indefinitely, requires total annual payments of \$138,207 by the City. This amount is attributed to the City's 1990 census as it relates in total to the county.

7. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Landfill	Capital Projects	<u>\$ 31,186</u>
Debt Service	Special Revenue: Local Option Sales Tax	500,000
	Special Revenue: Urban Renewal TIF	119,305
	Capital Projects	<u>34,033</u>
Total Transfers to Debt Service		<u>653,338</u>

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

7. INTERFUND TRANSFERS - Continued

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Capital Projects	Special Revenue: Road Use	\$ 35,000
	Special Revenue: Emergency	26,729
	Special Revenue: Hotel/motel tax	<u>20,000</u>
Total Transfers to Capital Projects		<u>81,729</u>
Sewer	Special Revenue: Urban Renewal TIF	<u>64,000</u>
General	Capital Projects	23,000
	Special Revenue: Hotel/Motel Tax	12,695
	Special Revenue: Road Use	45,551
	Proprietary: Water	50,749
	Proprietary: Sewer	50,749
	Proprietary: Solid waste	1,439
	Proprietary: Landfill	<u>1,733</u>
Total Transfers to General		<u>185,916</u>
Road Use	Sewer	<u>30,447</u>
Employee Benefits	Sewer	<u>16,596</u>
Total		<u>\$1,063,212</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

8. RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials and employees, totaling \$1,000 during the year ended June 30, 2009.

9. RISK MANAGEMENT

The City of Cherokee is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 577 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

9. RISK MANAGEMENT - Continued

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City of Cherokee's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Cherokee's annual contributions to the Pool for the year ended June 30, 2009 were \$121,573.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2009, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its capital contributions; however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

9. RISK MANAGEMENT - Continued

The City of Cherokee also carries commercial insurance purchased from other insurers for coverage associated with commercial property, workers' compensation, lift station in flood area, and hangerkeeper's liability. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. LOANS RECEIVABLE

At June 30, 2009, the City had the following outstanding balances on loans made from the Revolving Loan Fund as an effort to promote economic development and promote and retain jobs within the City:

American Natural Soy - \$21,956 loan on December 9, 2003, payable in 10 annual payments of \$2,442.64, including interest at 2%.	\$ 11,507
Headlines - \$10,000 loan on May 1, 2008, payable in 120 monthly payments of \$111.02, including interest at 6%.	<u>9,117</u>
TOTAL	<u>\$ 20,624</u>

11. DEFICIT FUND BALANCES

The following funds had a deficit balance at June 30, 2009:

<u>Fund</u>	<u>Deficit Balance June 30, 2009</u>	<u>Cause of Deficit</u>	<u>Plans to Eliminate Deficit</u>
Proprietary: Landfill	\$ (13,002)	Increase in expenditures	Reduce spending
Storm water	\$ (9,866)	Increase in expenditures	Reduce spending

12. LITIGATION

The City is party to routine legal proceedings and litigation arising in the normal course of business. In the opinion of management, the outcome of such actions will have no material impact on the City's financial condition.

13. COMMITMENT

At June 30, 2009, the City had construction contracts for the community center and infrastructure projects totaling approximately \$1,065,210 of which approximately \$654,717 remained outstanding.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CHEROKEE
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2009

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to be Budgeted
RECEIPTS:			
Property tax	\$1,740,017		
Tax increment financing collections	218,619		
Other city taxes	521,943		
Licenses and permits	26,537		
Use of money and property	97,953	\$ 9,942	
Intergovernmental	765,607		
Charges for service	140,477	2,416,071	\$ 180,776
Special assessments	18,272		
Miscellaneous	<u>521,807</u>	<u>11,676</u>	<u>197,264</u>
TOTAL RECEIPTS	<u>4,051,232</u>	<u>2,437,689</u>	<u>378,040</u>
DISBURSEMENTS:			
Public safety	1,345,016		
Public works	665,085		47,554
Culture and recreation	757,638		
Community and economic development	1,641		
General government	345,061		150,221
Debt service	2,113,371		
Capital projects	291,658		
Business-type activities		<u>2,510,249</u>	<u>180,776</u>
TOTAL DISBURSEMENTS	<u>5,519,470</u>	<u>2,510,249</u>	<u>378,551</u>
DEFICIENCY OF RECEIPTS UNDER DISBURSEMENTS	(1,468,238)	(72,560)	(511)
OTHER FINANCING SOURCES - NET	<u>1,596,527</u>	<u>(56,527)</u>	
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	128,289	(129,087)	(511)
BALANCES - BEGINNING OF YEAR	<u>1,858,885</u>	<u>1,012,282</u>	<u>110,751</u>
BALANCES - END OF YEAR	<u>\$1,987,174</u>	<u>\$ 883,195</u>	<u>\$ 110,240</u>

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$1,740,017	\$1,895,571	\$1,895,571	\$ (155,554)
218,619	184,197	184,197	34,422
521,943	562,423	562,423	(40,480)
26,537	16,325	16,325	10,212
107,895	108,985	108,985	(1,090)
765,607	484,239	772,585	(6,978)
2,375,772	2,820,352	2,857,852	(482,080)
18,272	54,400	54,400	(36,128)
336,219	549,530	549,530	(213,311)
<u>6,110,881</u>	<u>6,676,022</u>	<u>7,001,868</u>	<u>(890,987)</u>
1,345,016	831,316	1,315,317	(29,699)
617,531	718,666	718,666	101,135
757,638	798,400	1,243,644	486,006
1,641	35	9,585	7,944
194,840	313,377	370,117	175,277
2,113,371	1,129,485	1,129,485	(983,886)
291,658	332,165	764,868	473,210
<u>2,329,473</u>	<u>2,724,640</u>	<u>2,724,640</u>	<u>395,167</u>
<u>7,651,168</u>	<u>6,848,084</u>	<u>8,276,322</u>	<u>625,154</u>
(1,540,287)	(172,062)	(1,274,454)	(265,833)
<u>1,540,000</u>	<u> </u>	<u>688,432</u>	<u>851,568</u>
(287)	<u>\$ (172,062)</u>	<u>\$ (586,022)</u>	<u>\$ 585,735</u>
<u>2,760,416</u>			
<u>\$2,760,129</u>			

CITY OF CHEROKEE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except internal service funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type activities and non-program. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds and proprietary funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,428,238. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the following functions: public safety and debt service.

OTHER SUPPLEMENTARY INFORMATION

CITY OF CHEROKEE
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

	<u>Emergency</u>	<u>Local Option Sales Tax</u>	<u>Hotel/ Motel</u>
RECEIPTS:			
Property tax	\$ 26,729		
Tax increment financing			
Other city taxes		\$454,888	\$ 67,055
Use of money and property		4,339	31
Intergovernmental			
Miscellaneous			30,835
TOTAL RECEIPTS	<u>26,729</u>	<u>459,227</u>	<u>97,921</u>
DISBURSEMENTS:			
Governmental Activities:			
Culture and recreation			34,202
Capital projects			
TOTAL DISBURSEMENTS			<u>34,202</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>26,729</u>	<u>459,227</u>	<u>63,719</u>
OPERATING TRANSFERS OUT	<u>(26,729)</u>	<u>(500,000)</u>	<u>(32,695)</u>
NET CHANGE IN CASH BALANCES		(40,773)	31,024
CASH BALANCES - BEGINNING OF YEAR		<u>548,135</u>	<u>(11,831)</u>
CASH BALANCES - END OF YEAR	<u>\$</u>	<u>\$507,362</u>	<u>\$ 19,193</u>
CASH BASIS FUND BALANCES:			
Unreserved:			
Special revenue funds		\$507,362	\$19,193
Permanent fund			
TOTAL CASH BASIS FUND BALANCES	<u>\$</u>	<u>\$507,362</u>	<u>\$ 19,193</u>

Special Revenue				Permanent Oak Hill Perpetual Care	Total
Urban Renewal TIF	Revolving Loan	Library Memorial	Parks & Recreation Capital Improvements		
					\$ 26,729
\$218,619					218,619
					521,943
	\$ 610	\$ 54	\$ 570	\$ 1,160	6,764
		5,146			5,146
	3,774	11,309	661	2,126	48,705
<u>218,619</u>	<u>4,384</u>	<u>16,509</u>	<u>1,231</u>	<u>3,286</u>	<u>827,906</u>
		14,888	11,338	3,134	63,562
2,163					2,163
<u>2,163</u>		<u>14,888</u>	<u>11,338</u>	<u>3,134</u>	<u>65,725</u>
216,456	4,384	1,621	(10,107)	152	762,181
(183,305)					(742,729)
33,151	4,384	1,621	(10,107)	152	19,452
24,462	75,138	7,771	75,044	146,986	865,705
<u>\$ 57,613</u>	<u>\$ 79,522</u>	<u>\$ 9,392</u>	<u>\$ 64,937</u>	<u>\$147,138</u>	<u>\$885,157</u>
\$ 57,613	\$ 79,522	\$ 9,392	\$ 64,937		\$738,019
				\$147,138	147,138
<u>\$ 57,613</u>	<u>\$ 79,522</u>	<u>\$ 9,392</u>	<u>\$ 64,937</u>	<u>\$147,138</u>	<u>\$885,157</u>

CITY OF CHEROKEE
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

	Enterprise Funds			
	Landfill	Solid Waste	Storm Water	Total
OPERATING RECEIPTS:				
Charges for service	\$147,256	\$234,337	\$ 80,916	\$462,509
Use of money and property			387	387
TOTAL OPERATING RECEIPTS	<u>147,256</u>	<u>234,337</u>	<u>81,303</u>	<u>462,896</u>
OPERATING DISBURSEMENTS:				
Business type activities	<u>159,473</u>	<u>228,429</u>	<u>149,258</u>	<u>537,160</u>
TOTAL OPERATING DISBURSEMENTS	<u>159,473</u>	<u>228,429</u>	<u>149,258</u>	<u>537,160</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(12,217)	5,908	(67,955)	(74,264)
TRANSFERS - NET	<u>29,453</u>	<u>(1,439)</u>		<u>28,014</u>
NET CHANGE IN CASH BALANCES	17,236	4,469	(67,955)	(46,250)
CASH BALANCES - BEGINNING OF YEAR	<u>(30,238)</u>	<u>(3,619)</u>	<u>58,089</u>	<u>24,232</u>
CASH BALANCES - END OF YEAR	<u>\$ (13,002)</u>	<u>\$ 850</u>	<u>\$ (9,866)</u>	<u>\$ (22,018)</u>
CASH BASIS FUND BALANCES:				
Unreserved	<u>\$ (13,002)</u>	<u>\$ 850</u>	<u>\$ (9,866)</u>	<u>\$ (22,018)</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ (13,002)</u>	<u>\$ 850</u>	<u>\$ (9,866)</u>	<u>\$ (22,018)</u>

CITY OF CHEROKEE
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2009

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount of Original Issue</u>	<u>Balance Beginning of Year</u>
General Obligation Notes:				
Sioux Valley Memorial Hospital Wellness Center	11-01-00	5.40 - 6.25%	\$1,000,000	\$ 630,000
Essential corporate purpose (miscellaneous projects)	7-1-02	2.50 - 4.70%	1,430,000	900,000
1993 refunding 2004 A	4-15-04	1.25 - 3.35%	1,785,000	945,000
Essential corporate purpose 2004 B	6-15-04	2.40 - 4.50%	3,200,000	2,315,000
Essential corporate purpose (aquatic center)	8-15-06	4.10 - 4.60%	400,000	365,000
Essential corporate purpose (street sweeper)	11-01-06	4.75%	150,000	127,000
Essential corporate purpose (fire rescue truck)	7-01-08	2.70 - 4.00%	595,000	
Essential corporate purpose	6-01-09	1.35 - 4.125%	945,000	<u> </u>
TOTAL				<u>\$5,282,000</u>
Revenue Notes:				
Sewer	9-30-99	4.23%	\$2,170,000	\$1,604,000
Water	4-01-02	3.25 - 5.00%	1,330,000	380,000
Sewer	6-19-02	3.00%	3,390,000	2,660,000
Aquatic center	2-02-07	5.00%	1,650,000	<u>1,500,000</u>
TOTAL				<u>\$6,144,000</u>

Schedule 3

<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
	\$ 65,000	\$ 565,000	\$ 35,805	
	900,000		42,640	
	180,000	765,000	28,568	
	315,000	2,000,000	93,688	
	35,000	330,000	16,358	
	28,000	99,000	6,032	
\$ 595,000	55,000	540,000	19,613	
<u>945,000</u>	<u> </u>	<u>945,000</u>	<u>17,646</u>	<u> </u>
<u>\$1,540,000</u>	<u>\$1,578,000</u>	<u>\$5,244,000</u>	<u>\$260,350</u>	<u>\$ </u>
	\$ 95,000	\$1,509,000	\$ 68,651	
	185,000	195,000	19,215	
	143,000	2,517,000	86,450	
<u> </u>	<u>200,000</u>	<u>1,300,000</u>	<u>75,021</u>	<u> </u>
<u>\$ </u>	<u>\$ 623,000</u>	<u>\$5,521,000</u>	<u>\$249,337</u>	<u>\$ </u>

CITY OF CHEROKEE
NOTE MATURITIES
JUNE 30, 2009

General Obligation Notes

<u>Miscellaneous Projects</u>						
Year Ending June 30,	<u>Issued 11-01-2000</u>		<u>Issued 4-15-2004</u>		<u>Issued 6-15-2004</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2010	5.90%	\$ 70,000	2.75%	\$ 185,000	3.65%	\$ 300,000
2011	5.40%	70,000	3.00%	185,000	3.85%	310,000
2012	5.45%	75,000	3.20%	195,000	4.05%	325,000
2013	5.50%	80,000	3.35%	200,000	4.20%	340,000
2014	5.55%	85,000			4.35%	355,000
2015	5.60%	90,000			4.50%	370,000
2016	5.70%	95,000				
2017						
2018						
2019						
TOTAL		<u>\$ 565,000</u>		<u>\$ 765,000</u>		<u>\$2,000,000</u>

<u>Revenue Notes</u>						
Year Ending June 30,	<u>Sewer Issued 9-30-99</u>		<u>Water Issued 4-1-02</u>		<u>Sewer Issued 6-19-02</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2010	4.23%	\$ 99,000	5.00%	\$ 195,000	3.00%	\$ 147,000
2011	4.23%	103,000			3.00%	152,000
2012	4.23%	107,000			3.00%	156,000
2013	4.23%	112,000			3.00%	161,000
2014	4.23%	118,000			3.00%	166,000
2015	4.23%	122,000			3.00%	171,000
2016	4.23%	127,000			3.00%	176,000
2017	4.23%	132,000			3.00%	181,000
2018	4.23%	138,000			3.00%	187,000
2019	4.23%	144,000			3.00%	192,000
2020	4.23%	150,000			3.00%	198,000
2021	4.23%	157,000			3.00%	204,000
2022					3.00%	210,000
2023					3.00%	216,000
TOTAL		<u>\$1,509,000</u>		<u>\$ 195,000</u>		<u>\$2,517,000</u>

Miscellaneous Projects

<u>Issued 8-15-2006</u>		<u>Issued 11-01-2006</u>		<u>Issued 7-01-2008</u>		<u>Issued 6-01-2009</u>		<u>Total</u>
<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	
4.20%	\$ 35,000	4.75%	\$ 31,000	3.00%	\$ 50,000	1.35%	\$ 235,000	\$ 906,000
4.25%	35,000	4.75%	33,000	3.15%	55,000	1.75%	155,000	843,000
4.30%	40,000	4.75%	35,000	3.35%	55,000	2.00%	160,000	885,000
4.35%	40,000			3.45%	60,000	2.35%	190,000	910,000
4.40%	40,000			3.55%	60,000	3.00%	30,000	570,000
4.45%	45,000			3.70%	60,000	3.30%	35,000	600,000
4.50%	45,000			3.85%	65,000	3.50%	35,000	240,000
4.60%	50,000			3.95%	65,000	3.75%	35,000	150,000
				4.00%	70,000	4.00%	35,000	105,000
						4.125%	35,000	35,000
	<u>\$ 330,000</u>		<u>\$ 99,000</u>		<u>\$ 540,000</u>		<u>\$ 945,000</u>	<u>\$5,244,000</u>

Aquatic Issued 2-02-2007

<u>Interest Rates</u>	<u>Amount</u>	<u>Total</u>
5.00%	\$ 300,000	\$ 741,000
5.00%	500,000	755,000
5.00%	500,000	763,000
		273,000
		284,000
		293,000
		303,000
		313,000
		325,000
		336,000
		348,000
		361,000
		210,000
		<u>216,000</u>
	<u>\$1,300,000</u>	<u>\$5,521,000</u>

CITY OF CHEROKEE
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST SEVEN YEARS

	<u>2009</u>	<u>2008</u>	<u>2007</u>
RECEIPTS:			
Property and other city tax	\$2,261,960	\$2,206,233	\$2,135,270
Tax increment financing	218,619	202,182	205,308
Licenses and permits	26,537	28,364	25,777
Use of money and property	97,953	132,896	163,893
Intergovernmental	765,607	567,671	887,099
Charges for service	140,477	171,005	101,431
Special assessments	18,272	36,770	25,830
Miscellaneous	<u>521,807</u>	<u>679,773</u>	<u>1,358,900</u>
 TOTAL REVENUES	 <u>\$4,051,232</u>	 <u>\$4,024,894</u>	 <u>\$4,903,508</u>
 DISBURSEMENTS:			
Public safety	\$1,345,016	\$ 870,531	\$ 922,236
Public works	665,083	761,497	738,554
Culture and recreation	757,638	1,345,196	680,192
Community and economic development	1,641	12,361	635
General government	345,061	230,641	303,901
Debt service	2,113,371	1,283,427	983,395
Capital projects	<u>291,658</u>	<u>139,788</u>	<u>3,032,922</u>
 TOTAL EXPENDITURES	 <u>\$5,519,468</u>	 <u>\$4,643,441</u>	 <u>\$6,661,835</u>

Schedule 5

<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
\$2,115,269	\$1,980,336	\$2,073,806	\$1,976,920
170,779	221,297	203,467	225,979
27,469	25,519	27,128	24,229
193,391	133,901	88,240	88,156
487,336	528,684	1,184,756	695,258
59,620	69,978	82,648	75,819
52,077	225,640	24,633	46,920
<u>567,434</u>	<u>370,588</u>	<u>1,204,605</u>	<u>427,510</u>
<u>\$3,673,375</u>	<u>\$3,555,943</u>	<u>\$4,889,283</u>	<u>\$3,560,791</u>
\$ 935,557	\$ 842,842	\$ 825,650	\$ 851,784
486,313	629,256	475,612	1,332,189
909,802	686,449	672,576	887,527
1,777	6,944	99,075	115,244
295,914	285,331	288,555	304,447
1,192,475	2,161,195	4,033,976	2,273,282
<u>211,407</u>	<u>169,650</u>	<u>2,984,197</u>	<u> </u>
<u>\$4,033,245</u>	<u>\$4,781,667</u>	<u>\$9,379,641</u>	<u>\$5,764,473</u>

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INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and
Members of the City Council
City of Cherokee
Cherokee, IA 51012

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cherokee, Iowa as of and for the year ended June 30, 2009, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents, and have issued our report thereon dated November 16, 2009. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Cherokee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies including a deficiency we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to

initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-09 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cherokee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Cherokee, and other parties to whom the City of Cherokee may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Cherokee during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



November 16, 2009

CITY OF CHEROKEE
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Financial Statements

Significant Deficiency:

- I-A-09 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that one individual has custody of receipts, prepares bank deposits, picks up bank statements, and performs posting of cash receipts to the cash receipts journal. We also noted this individual is the only authorized signer on the City's primary financial institution account.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should consider having another official or employee added as an authorized signer on the primary financial institution account.

Response - We will consider our control procedures and whether to add another authorized signer to the primary financial institution account.

Conclusion - Response accepted.

- I-B-09 Reporting Financial Data - Reporting financial data reliably on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles, requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. As is a common situation in small entities, management presently does not have the qualifications and training to completely fulfill these responsibilities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses would improve management's ability to prepare and take complete responsibility for reliable cash basis financial statements.

Response - Management will consider steps which could be taken to improve the ability to prepare and take complete responsibility for reliable cash basis financial statements.

Conclusion - Response accepted.

Instances of Non-Compliance:

No matters were noted.

CITY OF CHEROKEE
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2009

Part II: Other Findings Related to Statutory Reporting

- II-A-09 Certified Budget - Disbursements during the year ended June 30, 2009 exceeded the amounts budgeted in the following functions: public safety and debt service. In addition, disbursements in the community and economic development function exceeded the amounts budgeted prior to the budget amendment. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- II-B-09 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-09 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-09 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Duane Mummert, Park Superintendent	Tooling expense	\$ 1,000

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with the Park Superintendent does not appear to represent conflicts of interest since the total transaction was less than \$1,500 during the fiscal year.

- II-E-09 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-09 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

CITY OF CHEROKEE
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2009

Part II: Other Findings Related to Statutory Reporting - Continued

II-G-09 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-09 Revenue Notes - The City has complied with various water and sewer revenue note resolutions.

II-I-09 Financial Condition - The following funds had a deficit balance at June 30, 2009:

Proprietary - Landfill
 - Storm Water

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial position.

Response -

Proprietary - Landfill - Storm Water	Reduce spending Reduce spending
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Conclusion - Response accepted.